

Utah's Economy - 2001

The Utah economy changed dramatically in 2001, ending a decade-long run of robust job growth and amazingly low unemployment rates. The United States slipped into a recession in March, and Utah's economy quickly followed suit. A national recession doesn't always translate into a Utah economic slowdown, as Utah has avoided some of the nations' past recessions — but not this one. The Utah economy began the year with a relatively healthy job growth rate of 2.4 percent. By the time December rolled around, the growth rate was no longer a growth rate, but had become a contraction rate of -1.4 percent. This time, the economic factors negatively impacting the national economy had a direct impact upon the Utah economy.

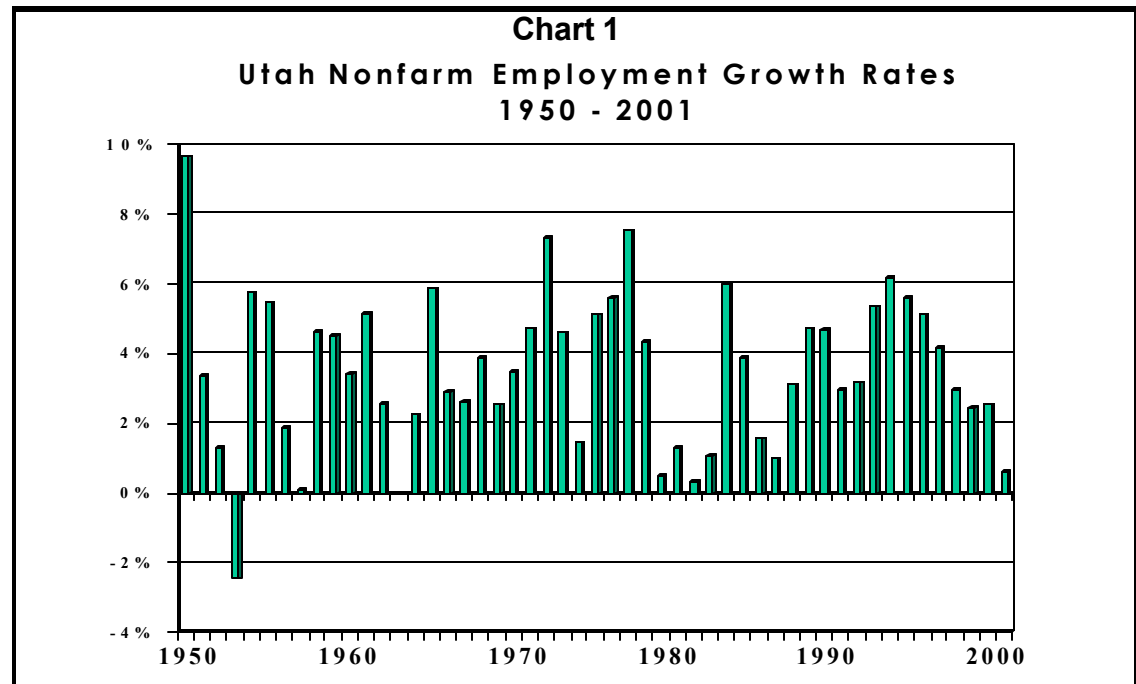
Even with the negative numbers experienced at the end of the year (October was the first month with a year-over job comparison that was negative), the average for the entire year was positive. A growth rate of 0.6 percent is hardly robust, but it does mean there were 6,800 more jobs in 2001 than in 2000. This was the state's slowest growth rate since 1987. The unemployment rate averaged 4.4 percent, up from 3.2 percent in the previous year. This is the first

time the unemployment rate rose above 4.0 percent since 1992, characterizing the last nine years as an incredible run of economic prosperity in Utah. However, 2001 is the year this course ran out of steam.

Job Growth by Industry

This marks the first year that the Utah economy is being measured by the new North American Industry Classification System (NAICS). This new structure replaces

the Standard Industrial Classification (SIC) system that was the original industry identifier established back in the 1930's. The SIC was built for a different industrial era. Our present economy has evolved away from a raw material and manufacturing base toward a service and information structure. The SIC was not built with the flexibility to identify these new and emerging industries. This shortcoming prompted the creation of NAICS.



The new NAICS system is not built to correlate with the SIC system; that is, they define and identify industries differently. Some of the NAICS classifications share titles with the SIC, such as construction and manufacturing, but even these are not defined the same as in the SIC. Other NAICS industries are brand new, such as information, accommodation and food services, and management of companies. For more information on NAICS in Utah, visit <http://jobs.gov/wi>.

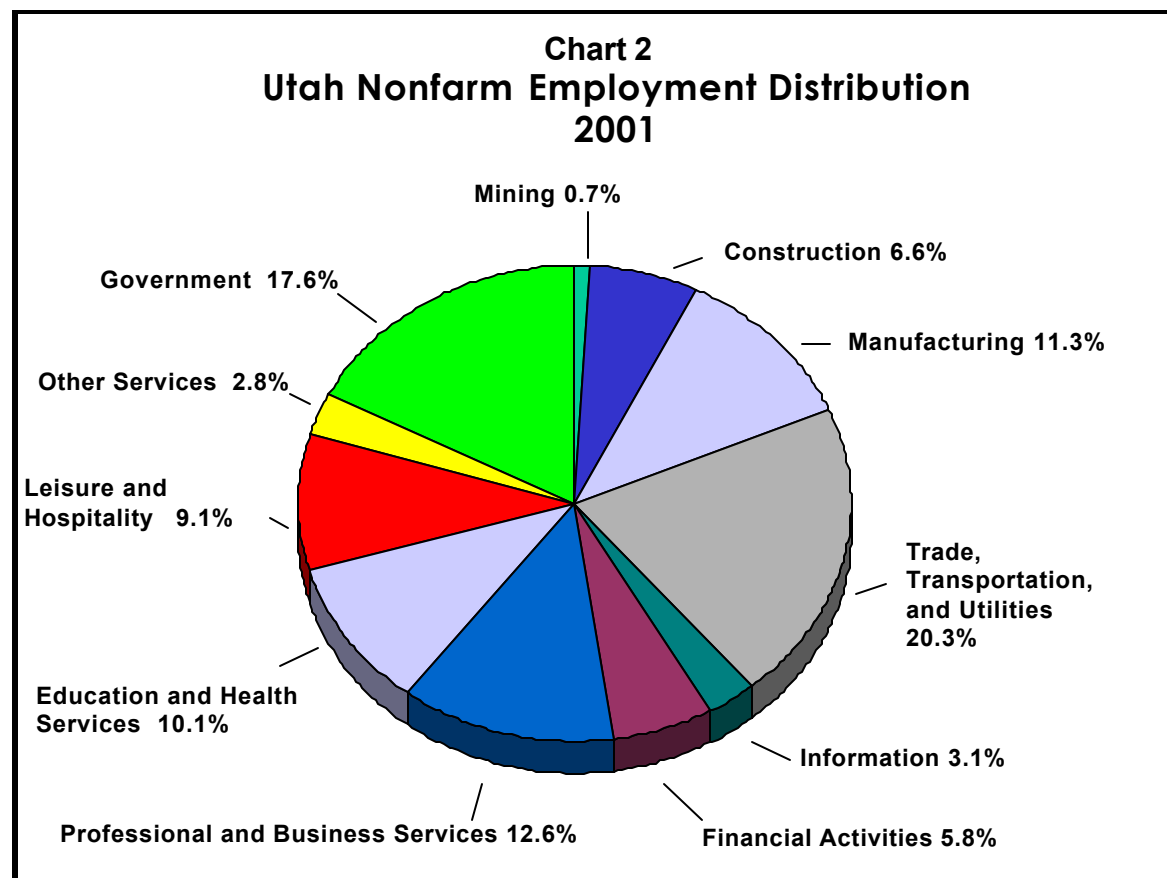
Although the overall Utah economy finished with increased employment, many of the individual industrial sectors slipped onto the negative side of the ledger. Back in 2000, only construction and manufacturing ended the year with declining employment. They repeated that performance in 2001, and were now joined by mining, information, and professional and business services. Public administration nearly joined this list with no recorded growth.

Mining In some parts of the state, this industry is quite important, but in the overall state scheme, its employment numbers are very low. This industry employs around 7,200 workers, making up less than one percent of all employment. Employment has fallen in this industry throughout most of the past decade, and 2001 is no exception.

Construction The construction industry recorded its second-straight year of declining employment. This really isn't a surprise considering it followed a record 11-year expansion, which tends to lead to overbuilding. Add to this the expected falloff as the 2002 Winter Olympic-related projects were completed. This industry lost over 600 jobs during 2001.

Manufacturing Another year of declining employment places this industry in a three-

year slump. Losses for 2001 numbered 3,600, and over the three-year period 5,700. This industry has also lost jobs on the national level over the same period. Therefore, the problem is rooted in a deeper phenomenon, not just something unique to Utah. This industry is responding to an overbuilding of production capacity that peaked in 1997 and is still being weeded out.



Trade, Transportation, Utilities This is a new conglomeration within NAICS. There are some significant definition changes here, where trade no longer includes restaurants, and utilities does not include the communications or waste-disposal industries. This industry conglomeration still employs nearly 220,000 Utahns, marking it as the largest employment classification within NAICS. Year-over, around 1,000 new jobs were added within these industries, but that represents a very small growth percentage compared against its total employment.

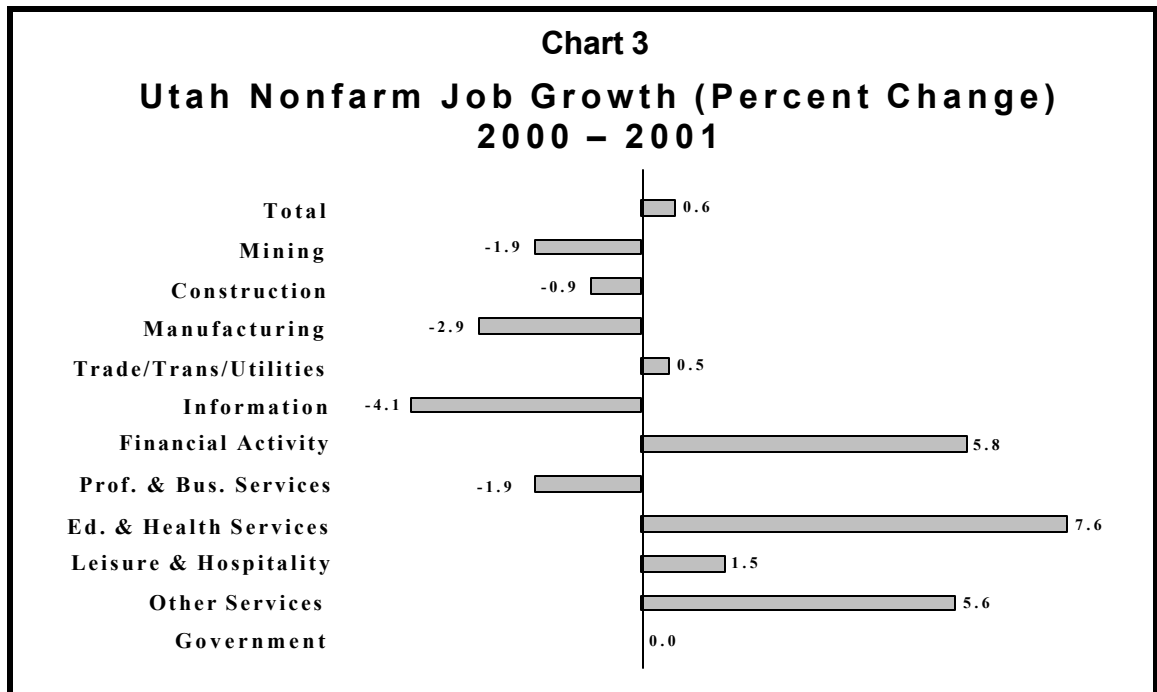
Information This is a new industry established in NAICS. It includes many of the new information-economy businesses, such as internet service providers, satellite communications, cellular phones and pagers. But it also includes some "old" industries like libraries, newspapers, television, and radio. This industry enjoyed some phenomenal growth during the 1990's as the new technology industries exploded. In fact, employment in this industry has nearly doubled since 1990. Nonetheless, these industries have grown beyond what the market will support, and they are currently scaling back. With this, the industry employed 33,500 workers in 2001, a retreat backward of roughly 1,500 positions from the year before.

Financial Activity The financial sector was one of the strong industries in 2001. Favorable interest rates were the primary spark behind this industry's vitality. Employing around 62,200 workers, this is a 3,400-position increase over 2000's employment total. This translates to a 5.8 percent growth rate.

Professional and Business Services Those businesses whose major input is human capital are grouped together within this sector. It covers a broad spectrum too expansive to enumerate here, but some members include computer and software development, company headquarters, call

centers, research firms, and waste management. It is a rather large sector employing over 136,600 workers. It enjoyed a robust amount of growth throughout the 1990's, oftentimes reaching double-digit growth rates. But the readjustments of the high-technology sector have hit within this sector, and employment actually declined by 1.9 percent in 2001. This is a decline of around 2,600 jobs. Despite these current setbacks, this sector will play a lead role in the economy's future growth.

Education and Health Services This was the economy's most dynamic sector. Both health care and education are the



strongest industries in the recessionary atmosphere that developed in 2001. Education is almost recession-proof in Utah with its large and growing school-age population. Health care is a growing industry nationwide, and the nation's demographics suggest this will not change anytime soon. This industry added around 7,700 new positions over the 2000 employment. This raises total employment in this sector to 109,500, which characterizes it as one of the state's larger employment sectors.

Leisure and Hospitality This is another new NAICS-identified sector. It basically combines the restaurant division of retail trade from the old SIC system with the hotel and recreation divisions from services. Together, they make up this new classification that gives somewhat of a feel for tourism employment in Utah. This industry employs around 98,300 workers, and despite the tragic event that occurred in late 2001 that stifled travel, this industry still managed to grow by 1.5 percent.

Other Services This is kind of a catch-all sector within NAICS. It has a potpourri of businesses within its classification, so a simple profile of this sector is difficult. It's not a particularly large sector, employing around 30,400 workers, but it did enjoy a growth of 5.6 percent over 2000. This sec-

tor has produced substantial and consistent growth rates throughout the past decade.

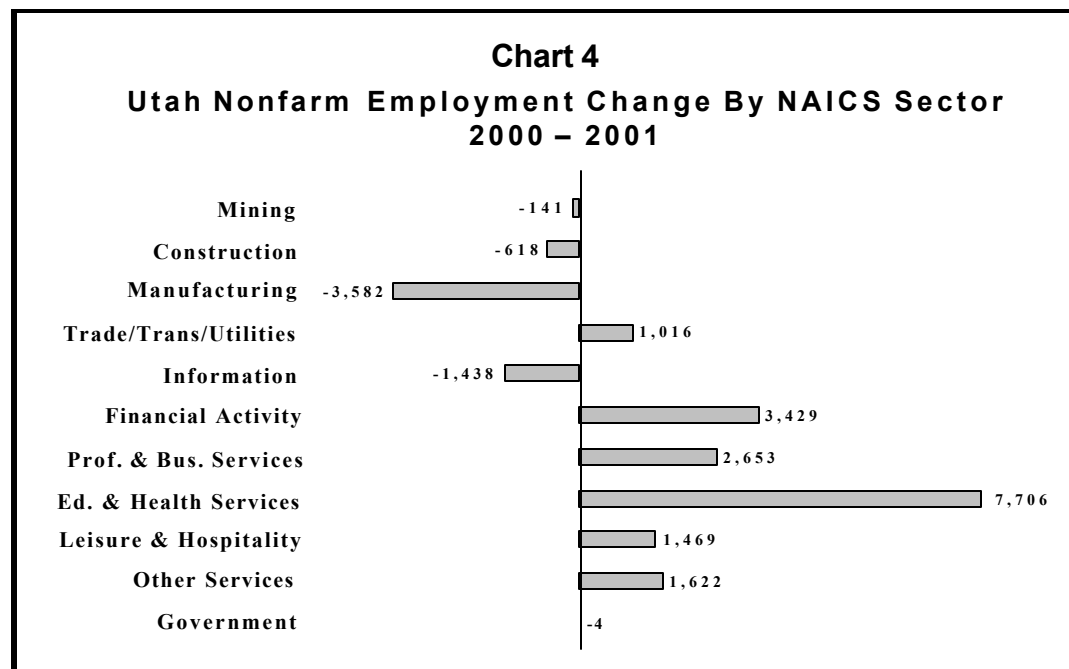
Public Administration (government)

Public Administration is a large sector in Utah, employing over 190,100 workers. This encompasses federal, state, and local governments, which includes national defense, education, and administration of government programs, counties, and cities. For 2001, this industry basically showed no growth in comparison with 2000's employment.

High-Technology The NAICS classification system does not have a designation

entitled high-technology. Defining high-technology is thus a subjective matter. But the greater level of detail in NAICS does make possible a more distinct measurement of the industries that do make it into any analysts' definition of high-technology. Workforce Services has grouped various NAICS industries together to form a high-technology designation.

The primary source of the national economic downturn in 2001 was the bursting of the high-technology bubble. Excessive euphoria resulting in overbuilding and over-investing came to a head in 2001, and the previously high-flying technology busi-



nesses now took it on the chin. Utah was no exception. Using Workforce Services high-technology designation, there were 63,350 high-technology workers in Utah in January 2001. By the time December rolled around 12 months later, this number had fallen by 7,900 workers to 55,440. This is a significant employment decline. Although many other industries reduced their payrolls in 2001, the heart of the year's economic decline is rooted in the collapse of the high-technology industry.

Wage Growth Slows

In 2001, Utah's average annual nonagricultural pay was \$29,640. This is a 2.9 percent year-over increase and marks the smallest yearly increase since 1993's 2.4 percent rise. Inflation for the year, as measured by the U.S. Consumer Price Index (CPI-U), was 2.8 percent. So the 2.9 percent wage increase for 2001 translates into the most minimal of gain when it comes in relation to purchasing power. It's better to

have no gain than to suffer a loss, so considering the recessionary environment that developed in 2001, this could be viewed as a positive situation.

Utah annual pay as a percentage of U.S. annual pay has declined from a high of 96.3 percent in 1981 to a low of 81.8 percent in 2001. This is a trend that is showing no signs of reversing itself. Some of Utah's unique demographic factors widen this disparity, such as a higher percentage of part-time employment than the national average, and a higher labor force participation rate amongst teens.

An additional analysis in this context involves the high-technology jobs mentioned previously. These jobs, on average, command a wage roughly 70 percent higher than the statewide average. No one likes to see an environment where jobs are lost, but to lose these high-paying technology jobs just adds to Utah's economic woes in 2001.

Conclusion

Utah's economy entered some rough waters in 2001. The economy started the year on a positive note, but by the end of the year, the economy was losing jobs. Unemployment climbed to over 4 percent for the first time since 1992. Wages just barely kept pace with inflation. The primary drag on the economy is the collapse of what was the high-flying high-technology industry. It's fall from grace is pulling down other sectors of the economy, and will continue to be an economic drag well into 2002.

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